

AD Budget Planning and
Human
Resources/ARL/R9/FWS/DOI
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To
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Subject Flexible Spending Account Program Changes

FSAFEDs has announced several programmatic changes to the health care and dependent care flexible spending account programs. Employees now have a 2 ½ month grace period for incurring eligible expenses; this means that employees now have until March 15 of the following year to incur eligible expenses for the current plan year. The filing deadline for submitting claims has also been extended to May 31. Additionally, the health care FSA maximum has been increased by \$1,000 to \$5,000 for 2006.

Will this grace period affect forfeited amounts from the 2003 or 2004 plan years in any way?

No.

Will the grace period apply to the 2005 benefit year?

Yes. The change is effective immediately. You now have until March 15, 2006, to incur eligible expenses using your 2005 election.

What is the overall time frame for incurring eligible expenses for the current plan year?

You have from January 1, 2005, until March 15, 2006, for a total of 14 ½ months.

Will the grace period allow me to increase my 2005 election since I will have a longer time to incur expenses?

No. A grace period is not a Qualified Status Change. It will not allow you to increase your annual election for 2005.

How will the 2005 grace period impact my account if I re-enroll for 2006?

Eligible expenses incurred during the grace period (January 1 thru March 15, 2006) will first be paid from any funds remaining in your 2005 account. Once your 2005 account is depleted, eligible expenses incurred during the grace period will be paid from your 2006 account.

Is the "use-it-or-lose-it" rule imposed by the IRS impacted by the grace period?

Yes, the "use-it-or-lose-it" date changes from December 31 of the current plan year to March 15 of the following year.

How does the grace period impact the deadline for filing claims for the current plan year?

Your deadline for filing claims is now May 31 of the year following the plan year.

When is the Health Care FSA maximum election increase effective?

The increase to a \$5,000 maximum will be effective for the 2006 plan year. It is NOT effective for the current 2005 plan year. Remember, to participate in FSAFEDS, you must re-enroll each year.